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SUBJECT: POLAND'S PKN ORLEN DISCUSSES MAZEIKIU NAFTA,
KAZAKHSTAN, AZERBAIJAN, ODESSA-BRODY

Classified By: CHARGE D'AFFAIRES KEN HILLAS, REASONS 1.5 B,D

Summary

11. (C) PKN Orlen's (PKNO) Deputy President Cezary Filipowicz requested information from the USG on whether Yukos International is considering a proposal to put the Mazeikiu Nafta (MN) refinery shares into escrow to further protect them from Yukos Finance. Poland is attempting to gain support from the EU and NATO allies to ensure that the transaction is completed. PKNO is very pleased with how MN handled the oil supply problems caused by "technical problems" in the Russian supply line, believing that it proves to the Russians that MN can and will continue to operate despite Russian interference. PKNO is interested in purchasing the energy-related Ventspils assets in Latvia if the Latvian government will sell more than a 38% share. PKNO would appreciate further information on who owns the product and supply pipelines in Latvia. Azerbaijani and Kazakhstani onshore fields are interesting to PKNO, but PKNO would appreciate a message to both governments from the USG supporting Poland's interests in pursuing projects in the countries. Discussions between Ukrainian PM Yanukovich and PM Kaczynski last week may help move the Odessa-Brody-Plock oil pipeline project forward. PKNO continues to be interested in a brainstorming session with the USG and Lithuanian governments on energy security. End Summary.

Mazeikiu Nafta - Putting Shares into Escrow?

12. (C) Cezary Filipowicz, Deputy President for Upstream and Crude Oil Procurement at Poland's PKN Orlen (PKNO) told the Deputy Econ Counselor that PKNO is very pleased with its purchase of the Mazeikiu (MN) refinery and wants to complete the transaction as soon as possible. PKNO is afraid that Mr. Rebgun of Yukos Finance will somehow get his hands on the MN shares currently owned by Yukos International and subsequently block completion of the transaction. PKNO likes the idea it said was recently suggested by S/P Energy Advisor Steve Hellman to put the MN shares into an escrow account in

a Dutch bank to be transferred to PKNO when: 1) The European Commission approves the transaction and 2) PKNO pays the rest of the money it owes Yukos International to the bank for Mazeikiu. PKNO hopes that Yukos International will consider the proposal and make it happen because if Rebgun gets his hands on the MN shares, the deal will never happen. Filipowicz would appreciate any update on whether Yukos International believes the escrow idea will work. PKNO invited Yukos International to a meeting to discuss the proposal, but has received no answer. Filipowicz explained that there is actually another organization between Yukos International DB (Dutch based) and Yukos International that currently holds the MN shares. This organization is a Dutch-based Paulos Formula foundation organized in the same way that foundations were organized in World War II to safeguard Jewish assets from the Nazis. The Foundation has proven to be a useful tool in safeguarding the MN assets.

Gathering Regional Support

13. (C) PKNO is doing everything possible to close the deal quickly. Polish President Kaczynski and Lithuanian President Adamkus recently sent a joint letter to EU President Barroso explaining the situation, asking Barroso to keep an eye on the transaction, and requesting expeditious EC approval of the deal. A similar letter was sent to the President of Finland as President of the EU. The Polish, Latvian, and Lithuanian Ministers of Defense sent a joint letter to their NATO counterparts to make them aware of the MN supply problem and its potential impact on the Baltic states. While they do not expect the issue to be discussed at the NATO Summit in Riga, they want their allies to be aware of the situation.

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Poland and Lithuania do not want to be alone in facing Russia, stated Filipowicz. They want energy security to be seen as a European and global problem. PKNO also does not want to be seen by the EU as bringing about a confrontation with Russia, although the GOP is convinced that Russia will continue to use energy as an instrument of foreign policy. Estonia is not on board with its neighbors yet. While there have been some contacts with Estonian authorities, they haven't said anything so far to support their neighbors. EU DG for Energy Piebalgs has been especially helpful. Being a Latvian citizen, Piebalgs has a good understanding of the situation faced by the Baltics.

PKNO Pleased with how MN Responded to Oil Supply Cut-off

14. (C) Filipowicz said PKNO is actually glad that the Russians cut off the oil when they did. This gave PKNO and MN the opportunity to prove they can handle such supply problems. PKNO is very happy with how MN Manager English overcame the problems. English put into place contracts with Venezuelan suppliers, which, while not as reliable as Russian suppliers, are a viable option. Despite the supply pipeline's "technical problems," MN was able to increase supply in August over July. The Russians have now learned that they can't stop the MN sale to PKNO by playing with the supply as MN has alternatives. While the Russians might be able to pretend that there are technical problems with the supply pipeline, they can't possibly play the same game with tankers. Thus, PKNO doesn't expect further supply problems using Butinge and Primorsk.

Future Plans - First Ventspils

15. (C) According to Filipowicz, the Latvian government is considering a tender of the Ventspils system. PKNO is very interested if it: 1) can purchase more than the 38% share on

offer; and 2) can separate energy assets from real estate and non-energy related assets. Ventspils could supply oil to MN, since according to PKNO, it is better located and more reliable than Butinge. The 1 million ton tank farm would provide storage capacity which PKNO desperately needs to ensure supply at MN if other supplies are cut-off. Owning the Ventspils and Mazeikiu pipelines would make it possible for PKNO to easily export to Estonia and Latvia.

Who Owns the Pipes?

¶6. (C) PKNO still has questions about the Latvian pipeline system. The Soviet Army owned product pipelines throughout the USSR that supported military installations and were never defined on maps. PKNO would like to buy both the crude and product pipelines in Latvia, but is concerned that Transneftoprodukt (with unknown Russian ownership) owns some portion of the product pipeline. Can the Latvian government or the USG confirm this? PKNO believes that the product and crude pipelines in Lithuania are owned by MN, but that the crude pipeline in Latvia is owned by the government, while the product pipeline belongs to some combination of government and Transneftoprodukt. Any information on this would be greatly appreciated by PKNO.

Possible Investment in Azerbaijan

¶7. (C) PKNO is considering potential investments in oil fields in Azerbaijan and Kazakhstan, explained Filipowicz. One of the problems with investing in Azerbaijan is that PKNO believes that the Azeris are afraid of the Russians and, therefore, of letting PKNO invest in the fields there. The Poles would appreciate a signal from the USG to the Azerbaijani Government that letting PKNO invest in Azerbaijan

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is a good idea. The Ministry of Economy had long talks with an Azerbaijani delegation this week and the Poles have indentified some target fields in which they are potentially interested in investing.

Kazakhstan is the Real Goal

¶8. (C) PKNO is even more interested in working with Kazakhstan, but this effort lost momentum when PKNO won the MN tender over competing Kazmunaigaz. The Kazakhs were apparently shocked they lost to the Poles, whom they had not considered serious competition. Now that some time has passed, PKNO wants to propose swapping a percentage of PKNO assets in Europe for Kazmunaigaz assets in Kazakhstan. This would give Kazakhstan its first foothold in Europe. To conclude the deal, PKNO needs the support of President Nazarbayev and his son-in-law Kulambayev. Here too, the GOP would appreciate a signal from the USG to the Kazakhs that it is all right to work with Poland. President Kaczynski will send a letter to President Nazarbayev next week with political proposals that PKNO hopes will help the business relationship to grow. If the swap idea does not work, PKNO will consider purchasing portions of onshore fields in Kazakhstan, as an investor and not an operator.

Odessa-Brody-Plock

¶9. (C) The President of PKNO sent a letter to Ukrainian PM Yanukovych asking for his help in organizing the Odessa-Brody-Plock pipeline project and moving it forward. Ukraine's Deputy Minister of Economy responded with a letter received by PKNO the week of September 11 in which the tone

was "working on the pipeline would be nice but,..." In the meantime, the GOP invited Yanukovych to the September 6-8 Economic Forum in Krynica, where he met with Prime Minister Kasczynski. The two leaders agreed that the project should go forward and that they would support it. Subsequently, Ukrainian Minister of Economy Boyko urgently called Filipowicz begging him to come quickly to the Ukraine to discuss Odessa-Brody-Plock. A team from PKNO and the Ministry of Economy is in Kiev on September 15 to discuss the project with Boyko. Filipowicz hopes that the high-level attention will finally lead to progress on the pipeline.

Further Steps with the USG

¶10. (C) When S/P Energy Advisor Steve Hellman was in Warsaw in August he discussed with Filipowicz the idea of a brainstorming session between the USG, the Government of Poland and the Government of Lithuania on Baltic regional energy security issues. Filipowicz would appreciate knowing whether the USG has any further thoughts on such a session. He is ready to go to the U.S. at any time to discuss further PKNO's plans and challenges.

Comment

¶11. (C) PKN Orlen's Filipowicz is one of the most respected and knowledgeable experts in Poland's energy industry, and an early supporter of the Odessa-Brody-Plock pipeline. Especially refreshing is that he has developed and is executing a realistic action plan for expanding his company and addressing future energy security issues. Post would appreciate Department assistance in providing a response to PKNO regarding its requests for information on whether Yukos International will consider placing the Mazeikiu shares into escrow, which entities own the supply and product pipelines in Latvia, and whether the USG can and will discuss Poland's interest in acquisitions with the Governments of Azerbaijan and Kazakhstan.

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